

North County Transit District

Oceanside, California

*Report to Board of Directors and
Management*

For the year ended June 30, 2008

Mgt. Ltr.
10/2/09

C&L
Caporicci & Larson
Certified Public Accountants

October 28, 2008

To the Board of Directors
of the North County Transit District
Oceanside, California

In planning and performing our audit of the basic financial statements of the North County Transit District (NCTD) as of and for the year ended June 30, 2008, in accordance with generally accepted auditing standards in the United States, we considered NCTD's internal control over financial reporting (internal controls) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NCTD's internal controls. Accordingly, we do not express an opinion on the effectiveness of NCTD's internal controls.

Our consideration of internal controls was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as noted in the following pages, we identified certain deficiencies in internal control that we consider to be control deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects NCTD's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of NCTD's financial statements that is more than inconsequential will not be prevented or detected by NCTD's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by NCTD's internal control.

This communication is intended solely for the information and use of the Board of Directors, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

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1. RECOGNITION OF COMPONENT UNIT UNDER GASB STATEMENT NO. 39

Observation

During our audit, we noted that NCTD did not recognize and report Full Access & Coordinated Transportation, Inc. (FACT), a California Not-for-Profit Organization as a blended component unit in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* in the basic financial statements. However, the financial position and activities of FACT as of and for the year ended June 30, 2008 were immaterial to NCTD's financial statements as a whole.

Based on our professional judgment, FACT should be considered a blended component unit of NCTD based on the following:

1. Board members of FACT consisted of two board members of NCTD as the Chair and Vice Chair of FACT Board and two employees of NCTD as members of the FACT Board.
2. A financial benefit or burden relationship exists, for example NCTD has provided free office space to FACT.

Recommendation

We recommend management closely monitor FACT's financial transactions and include in the basic financial statements of NCTD when the above listed conditions are met and become significant to NCTD's financial statements as a whole.

**North County Transit District
Report to Board of Directors and Management, Continued
For the year ended June 30, 2008**

2. RISK MANAGEMENT

Observation

NCTD has not performed an actuarial study for the Incurred But Not Reported (IBNR) reserve for the general liabilities and workers' compensation. However, NCTD estimated IBNR at 15% of the total open claims for general liabilities only.

Recommendation

We recommend NCTD consider having an actuarial study performed for the IBNR reserve for the general liabilities and workers' compensation at least every three years in order to determine whether the recorded reserve amounts are reasonable.